DOCUMENT RESUME

ED 095 640 EA 006 372

AUTHOR Kirst, Michael W.
TITLE Future Directions for School Finance Reform.
PUB DATE 26 Nov 73
NOTE 11p.; Paper presented at the National Symposium on State School Finance Reform (Washington, D.C., November 26, 1973)

EDRS PRICE MF-$0.75 HC-$1.50 PLUS POSTAGE
DESCRIPTORS Educational Accountability; *Educational Finance; *Educational Trends; *Equal Education; Equalization Aid; *Finance Reform; Foundation Programs; Property Taxes; *School Taxes; *State Federal Aid; Tax Effort; Tax Rates; Tax Support

ABSTRACT

This paper examines previous changes in school finance reform, makes some future projections about the direction finance reform might go, and indicates what strategies seem particulary effective. It begins at the Federal level by taking a look at the overall Federal budget picture and its implications for the Federal role. The author proposes that the Federal Government monitor expenditure disparities caused by differences in school district wealth rather than differences caused by free local choices of tax rates or differential funding for disadvantaged pupils. At the State level, the author sees that one fundamental factor in State school finance reform is that overall State treasuries remain very much in surplus. Trends in finance reform in the last 2 years indicate that: (1) States with the most thoroughgoing reform are for the most part those without large city school districts; (2) there is a lack of massive property tax relief in reform measures; and (3) State court suits have continued to be crucial to reform efforts. Specific reforms in certain States are discussed. Some school finance issues have made little progress because of no real good data on different costs of education for pupils with special needs; no linking of finance plans to accountability; unresolved adjustments in State formulas for big cities; a lack of information about the full impact of capacity equalization; and little empirical evidence to define or measure "local" control. (Author/DN)

ED 095640

U.S. DEPARTMENT OF HEALTH, EDUCATION & WELFARE
NATIONAL INSTITUTE OF EDUCATION
THIS DOCUMENT HAS BEEN REPRODUCED EXACTLY AS RECEIVED FROM THE PERSON OR ORGANIZATION ORIGINATING IT. POINTS OF VIEW OR OPINIONS STATED DO NOT NECESSARILY REPRESENT OFFICIAL NATIONAL INSTITUTE OF EDUCATION POSITION OR POLICY

FUTURE DIRECTIONS FOR SCHOOL FINANCE REFORM

By Michael W. Kirst
Stanford University

Presented to National Symposium on State Finance Reform
Sponsored by USOE
November 26, 1973
Washington, D.C.

My charge today is to look back in the past and see where we have come in school finance reform and then to make some future projections about where we are likely to go and what strategies seem particularly effective. Let me start at the federal level by taking a look at the overall federal budget picture and its implications for the federal role.

A paper by the Brookings Institution called Setting National Priorities for 1974 shows that the federal budget in recent years has had very little free resources or flexibility that makes an expanded federal role feasible. The failure of the Congress to reallocate appreciable sums of money from the defense budget has resulted in a lack of money in the domestic sector. Moreover, "uncontrollable" increases such as medicare, welfare, and the national debt combined with tax relief in 1969 and 1971 resulted in a federal deficit even with full employment. Consequently, we have not had a growth in federal education expenditures at the elementary/secondary level. The Nixon Administration considered a value-added tax proposal to substitute for local school property tax in 1971 but has dropped that.

Clouding the picture of federal finance reform is the fact that health (including medicare) expenditures are beginning to claim an ever increasing prominence in the Department of HEW. In the future, we will face some difficult trade-offs between increased federal expenditures for education or health. It is my current feeling that the health area will garner the lion's share of the funds.

EA 006 322

In recent Congressional testimony, I proposed federal incentive grants for states and local finance reform. We realize that any federal program must accommodate a wide range of state political/fiscal traditions and preferences. The enormous and fundamental diversity of the American states results in a federal formula being optimal for one type of state but utter nonsense for another. The basic strategy is to link future federal general aid to the willingness and extent of states to undertake school finance reform. In short, this would be federal general aid monies that could be used by local school districts for any purposes. But in order to qualify, a state must enact certain types of state school finance reforms.

Now, what we are proposing specifically is that the federal government would monitor expenditure disparities caused by differences in school district wealth rather than differences caused by free local choices of tax rates or differential funding for disadvantaged pupils. To qualify, a state must reduce wealth-based disparities to a minimum acceptable level. Such a plan would permit a state to choose any effective reform approach such as: full state assumption, district power equalizing, increased foundation programs or a combination of these basic plans. In addition, the federal government could reward state provisions for recognizing cost-of-living differentials or for pupil weighting plans for special educational needs, such as handicapped children.

This proposal would cost about $2 billion a year to have any impact on state policy. I do not see the money forthcoming in the near future or the life of the present Administration. I do think that after 1976, we might see this proposal as a major topic. What we will see in the

short run, I think, is the explicit recognition by the Congress that the current federal categorical funds are not offsetting the differences in local school wealth. Congress is considering as part of its block grant consolidations for such things as school resources, innovation, and so on, that federal money be distributed in a manner that would offset local property tax wealth. In other words, federal categorical aid would flow primarily to low property wealth districts and in this way help to offset the inequities among local property tax bases. In sum then, the federal government has been decreasing as a percent of total elementary/secondary expenditures. In the short run there are competing claims for very limited federal resources, particularly claims from defense and health. This will limit the federal role until 1977 at the earliest. A possible future alternative is to provide federal general aid with a requirement that recepients have an equalized state finance system. In that way the federal government may once again be a major reform actor.

In the meantime, the federal government should reconsider Title I ESEA in view of the growth of state compensatory education programs and weighting factors. In Illinois, for example, there is a state weighting factor for compensatory education with entirely different requirements for project approved. A district must file a general plan for educational improvement for disadvantaged and non-disadvantaged children. How will Title I ESEA mesh with these new state programs? Title I has a target area, concentration, and comparability focus that contains stricter regulations than state programs in California and Illinois which are almost as big as the federal program.

Let me move on then to the state level. A factor of fundamental importance in state school finance reform is that overall state treasuries are very much in surplus. The state surpluses will be crucial factors in the future of school finance reform. I think there is a good bet that these state surpluses will continue. Even if the economy turns down or slows up from the present boom period, I think three major factors will keep state treasuries in the black and able to finance some kind of school reform.

One, in the late 1960's the states underwent a real period of fiscal belt-tightening by cutting out nonessential expenditures and restricting the growth of the public sector. This has established a realistic base of state services from which new school programs can be added. Perhaps the major factor making the long run outlook for the state treasury a positive one is the turndown in average daily attendance at public schools and the consequent turndown in state demands for other child services. In other words, it is the states that will reap the most benefit from the slower growth in pupil enrollment and in lower demand for child services generally. The third factor working in the favor of state treasuries is the improved tax structure of many states.

In view of these three positive factors, I think that only one major offsetting trend implies trouble for state treasuries. I am referring to rising public sector wages which would consume increases in state taxable resources. As we know, public sector wages do not often lead to productivity increases given the nature of what public sector employees do. A classic example is the school bus driver who does not drive the bus any faster, any longer, even though his wages go up 7%.

However, in recent years, despite all the rhetoric by teacher organizations, public employee wage settlements have been quite low, often in the 4.5% range. If wage settlements for public employees continue this way, then I see a good picture for state treasuries and a hopeful outlook for school finance reform in the states. All of these calculations, however, are now uncertain because of the energy crisis. A lack of energy could restrict state GNP and thereby restrict state revenue. As one state politican observed, "you can only equalize education on a rising fiscal tide."

Now let me turn to the subject at hand in a specific way and outline some general directions of school finance reforms in the past two years. First of all, we have had reform in several major states but the states with the most thoroughgoing reform are almost all states without large city school districts. Absent from the list of reform states are the big states in the middle Atlantic and eastern region and some major states with large city populations in the midwest. The equalization impact of the new Illinois and Michigan laws is unclear at this point. This fact means that we will have to spend more time divising specific remedies for states with big cities.

A second trend of the reform so far, a general characteristic if you will, is the lack of massive property tax relief. The rhetoric around 1970-71 stressed the goal of eliminating the property tax for the public schools. This has not happened. We have seen improvements in property tax assessment and such things as circuit breakers and limited tax property relief. But the proposals for massive property tax relief and increases in state sales and income taxes that were made in Michigan and Oregon have not passed. This certainly suggests some directions for

use to take if we want to accomplish reform in the short run.

Moreover, there is a revisionism in the economic theory of property taxation. Joseph Peckman of the Brookings Institution in Setting National Priorities for 1973 asserts the property tax is progressive with respect to income incidence. The property tax has displayed an impressive elasticity over the last two decades. Several studies stress across the board property tax relief will benefit disproportionately large landowners and business.

A third important trend is that the state court suits have continued to be crucial. The Rodriquez decision has not slowed down the use of state courts and state constitutional provisions to bring about reform. The process may be slower than a federal court but is proceeding nevertheless -- witness New Jersey and Arizona.

Now let me talk about the details of some of the plans. The states have chosen a variety of plans but no state has gone to a system of full state assumption with no local add ons or discretion. It appears that particular idea is a useful goal but only largely for the textbooks and not for the reality of legislative halls. On the other hand, we have had states who have set a very high state floor with a very limited portion of local add on. It seems to me, as I look across the states, that this will be a preferred solution in the South with its high state aid tradition. A modied form of capacity equalization is preferred by states with an historical low base of state aid and large spending disparities. These differences among the states reflect the political traditions of strong local control in New England, for example, and the lack of local property wealth in the South after the Civil War to establish a locally based finance

system.

Some of the ideas that have come out of the 1973 reforms which to me are particularly useful in other states include the "sliding scale leveling up" provisions in California and other states. By this I mean we move the low spending low wealth districts up gradually. The districts at the lower end of the spending distribution increase at a rate of, say, 10% annually while the wealthiest districts (with the lowest tax rates) increase at a rate of, say, only 3%. Over time this kind of sliding scale or sliding inflation factor equalizes a large percentage of the state's average daily attendance without drastic political upheavals. I think in states with wide expenditure disparities, this solution is probably a good one.

Another aspect of the state reform provisions, which is particularly interesting, is the new version of state restrictions on local tax rates or spending. A good example of this is California's SB 90, which froze per pupil expenditures at the 1972 spending level plus an inflation factor. As enrollment decreases the per pupil expenditure goes up. But state law prohibits an increase in per pupil expenditure. This forces localities to decide on program cuts.

These provisions for local revenues or tax limits have been initiated in many states including Colorado and California. But they are flawed by provisions for localities through a vote to add on to the existing expenditure base entirely through local funds. This add on is not power equalized. In other words, I am afraid what we have seen in several systems is a basically sound finance plan with a critical flaw: the nonpower equalized local add on, justified by the rhetoric "we should

have local add ons for excellence." We, as reformers, must pay attention to this kind of loophole which is big enough to drive a proverbial truck through.

The crucial issue is whether the local add on contains a recapture clause. Only one state does this but the Florida plan offsets this potential disequalizing effect. By recapture, of course I mean the amount of aid given to a local district is uniform across the state. All the other states, except Maine and Florida, have a minimum floor for each mill of add on but then let the wealthy districts keep whatever they raise over the minimum. This loophole in several recent reform efforts over ten years will erode the equity thrust if the local add on becomes a large part of total spending.

A particularly interesting aspect in Florida, Kansas, Maine, Montana and Utah is a statewide property tax that is not called a statewide property tax for political reasons. In these states the local jurisdiction is used largely to collect taxes. Consequently, we have required property taxes to be levied at specifie rates regardless of the amount of state allocation to individual districts. In this way, it seems to me, one can get the effects of the statewide property tax without using the rhetoric or inspiring the opposition to state control through state property taxes.

Another useful idea is the cost-of-living adjustment in Florida, which may apply to other geographically diverse states. The cost-of-living provision provided a nice package offset for the urban areas in south Florida which gave them more aid per pupil than the rural areas in the northern part of the state. The rural areas, however, benefited

greatly from the compensatory education allocation based on percentage on low income students. The cost-of-living idea, of course, is in no way related to a cost of education. It merely is a Bureau of Labor Statistics' measure that showed the cost-of-living in Florida counties varied from 85% near Alabama to 110% in the Miami area (Tallahassee was used as 100%).

An additional factor in school finance reform that was included in Florida is the view that there is more to this business than merely moving state money between school districts. State finance systems must pay attention to the money reaching the school sites where needy pupils are enrolled. Several of the states including Colorado, Michigan, Illinois, Utah and Wisconsin have pupil weighting formulas but only in Florida is there anything to insure the money for special needs trickles down from the district level to school site programs designed for special needs. It is significant, however, that contrary to the criticism we have heard about Serrano, the states have made adjustments for special educational needs. In the next few years, the school as the unit financial accountability will grow in importance.

This brings me to some issues where we made little progress particularly in conceptual terms. First of all, we have no real good data on different costs of education for pupils with special needs. We can't built up a cost index for education. This is a frequent request of legislatures but given the technology of education, we don't know what inputs make certain outputs for the "average" child much less those with special needs. Generalists in school finance reform, like myself, become particularly befuddled in areas like education of handicapped children. We must take the word of the various special educational interest groups

that certain types of special education costs three times more than the base. We need continual work here but I don't think we can solve this issue for technical reasons. We lack an understanding of the production functions in education for any type of child.

Secondly, we have been unable to link the finance plans to accountability. This again is not so much problems in applied methods. It is caused by the fact that nobody knows quite what accountability is. We have not linked accountability with financial incentives or sanctions for local schools. The meshing of school finance systems with sophisticated accountability systems is elusive because of theoretical inadequacies and disputes within the accountability movement.

Adjustments in state formulas for big cities is another unsolved issue. The simple fact of higher per capita expenditure levels in central cities than in suburbs for functions <u>other than education</u> does not in itself establish the existence of a causative role of municipal overburden. We must not include under municipal overburden those costs of public services that represent a part of the price that people voluntarily choose to pay for the amenities associated with life in the city. Consequently, I am troubled by the new Michigan formula that basically allocates additional state aid to those districts in which the tax rate for non-school purposes is high relative to the state average. A sounder approach is the Minnesota provision that shares the growth of the property tax among all school districts in the twin cities SMSA.

The entire concept of capacity equalization (or district power equalization) is another area that requires a careful monitoring of new

state plans in Kansas and Maine. Some experts have given unconstrained capacity equalization low priority because state policy makers do not like the concepts inherent uncertainty. Economic theory cannot predict local district response. Consequently, we don't know its impact or the amount of state money needed. Moreover, DPE encourages complex subsequent legislative adjustments through adding ceilings, floors, incentives and so on. The instinct of most politicians is to limit uncertainty through a high state floor with a limited range of DPE.

Finally, we need considerably more analysis of the political slogan "local control." We have little empirical evidence to define or measure "local" control. If districts have little local control now, then they have little to lose by full state assumption. As a first cut we need to consider such questions as:

- To what degree are local districts free to establish their own curriculum, employ staff, devise administrative procedure?
- Are state statutues and regulations enforced:
- Do agents at each governmental level perceive accurately the degree and location of existing control and how is their behavior shaped by such perceptions:
- Does the amount and type of state financing make a difference in the amount of local control?